

Message Text

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PAGE 01 TOKYO 16510 211039Z

12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /194 W

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R 210930Z DEC 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8892

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FED RESERVE

SUMMARY: RECENT DEVELOPMENTS REGARDING THE FOREIGN EXCHANGE
MARKET, JFY 1974 BUDGET STRATEGY AND ADDITIONAL DISCOUNT RATE
HIKE ARE DETAILED BELOW.

1. FOR LAST TWO WEEKS REPRESENTATIVE DOLLAR
RATE IN SPOT MARKET HAS HELD STEADY AT YEN280. VOLUME
IN THE MARKET HAS BEEN MODERATE WITH TOTAL REGISTERING
\$506.5 MIL. FOR PERIOD DEC. 10-14 AND \$474.1 MIL.
FOR DEC. 17-21. DAILY HIGH WAS REACHED ON MON. DEC.

UNCLASSIFIED

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PAGE 02 TOKYO 16510 211039Z

10 OF \$155.7 MIL. PREMIUM

ON FORWARD DOLLAR RATES STRENGTHENED THROUGHOUT TWO WEEK PERIOD, WITH THREE AND SIX MONTH FORWARDS MOVING TO PREMIUM OF 17.79 PERCENT AND 14.29 PERCENT RESPECTIVELY ON FRIDAY, DEC. 21. THREE MONTH FORWARD CLOSED ON DEC. 21 AT YEN292.45 WHILE SIX MONTH FORWARD CLOSED AT YEN300.00. TOTAL VOLUME FORWARD MARKET FOR THE WEEK DEC. 10 - 14 WAS \$625.3 MIL. WHILE THAT FOR DEC. 17 - 21 REGISTERED \$726.7 MIL.

2. OFFICIAL DISCOUNT RATE WILL BE RAISED 2.0 PERCENT TO 9.0 PERCENT, EFFECTIVE SATURDAY DEC. 22. THIS REPRESENTS REECRD HIGH LEVEL FOR THE CENTRAL BANK RATE, AND IS FIFTH INCREASE SO FAR THIS YEAR. IN APRIL RATE HAD STOOD AT 4.25 PERCENT. THIS MOST RECENT INCREASE FOLLOWS ON HEELS OF A 3.2 PERCENT MONTH TO MONTH RISE IN THE WHOLESALE PRICE INDEX FOR NOVEMBER AND AN EXPECTED JUMP OF SOME 5.5 PERCENT FOR DECEMBER.

3. BOJ ALSO INTENDS TO EFFECT ANOTHER INCREASE IN RESERVE REQUIREMENTS OF COMMERCIAL BANKS WITH DEPOSITS OF YEN100,000 MIL. OR MORE BY 0.25 PERCENT AS OF JANUARY 16. IN ADDITION BOJ AND MOF ARE EXPECTED TO RAISE INTEREST RATES ON BANK DEPOSITS AND POSTAL SAVINGS ACCOUNTS BY .75 TO 1.0 PERCENT. INTEREST RATES ON LOANS, BONDS AND DEBENTURES WILL ALSO RISE IN THE NEAR FUTURE.

4. PM TANAKA REPORTEDLY AGREES ON MAIN OUTLINES OF BUDGET WHICH IS TO BE PRESENTED TO CABINET ON DEC. 29 JFY 1974 GENERAL ACCOUNT BUDGET EXPENDITURES TO BE HELD TO INCREASE OF 20 PERCENT RATHER THAN 23 PERCENT OVER INITIAL JFY 1973 BUDGET PREVIOUSLY PROPOSED BY FORMER FIN MIN AICHI. 20 PERCENT INCREASE IS ABOUT THE SAME AS RISE IN NOMINAL GNP JFY 1974 FORECAST BY JERC. (INCREASE IS ONLY 12.2 PERCENT MEASURED AGAINST JFY 1973 INCLUDING RECENT SUPPLEMENTAL). FISCAL LOAN AND INVESTMENT PROGRAM TO INCREASE ONLY 12-13 PERCENT. PM ALSO AGREED TO INCOME TAX CUT, AND HIGHER AUTOMOBILE AND GAS TAXES. BUDGET PRESENTATION TO PARLIAMENT NOT LIKELY UNTIL NEXT MONTH.

5. COMMENT: NO EVIDENCE THAT OFFICIALS HAVE GIVEN ANY UNCLASSIFIED

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PAGE 03 TOKYO 16510 211039Z

THOUGHT TO POSSIBILITY THAT PROPOSED FISCAL/MONETARY MEASURES MIGHT LEAD TO "OVERKILL". OFFICIALS ONLY CONCERNED ABOUT PROSPECTS OF INFLATIONARY GAP DUE TO IMPACT OF OIL CRISIS, AND VERY MUCH AROUSED OVER RECENT ACCELERATION OF INFLATION (WHICH FOLLOWED INTRODUCTION OF TWO LAWS TO DEAL WITH OIL SHORTAGE). FORECASTS MAY UNDERESTIMATE EXTENT OF DECLINE IN PRIVATE INVESTMENT IN VIEW OF PRESENT GLOOMY BUSINESS SENTIMENT. IN FACT

OFFICIALS HAVE INDICATED PUZZLEMENT THAT SOME COUNTRIES
WHICH ARE ALSO EXPERIENCING ACCELERATION OF INFLATION
WOULD EVEN CONSIDER SOME EASING OF TIGHT MONEY POLICY.
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